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Hungary

Tobacco and Products

Annual

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Report Highlights:

Hungary's leaf tobacco production will stabilize both in volume and revenue due to the EU Common Agricultural Policy, but cigarette production is slowly declining. Import tariffs for tobacco and cigarettes decreased significantly with EU membership. However, US tobacco and cigarette sales to Hungary are likely to only remain stable.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Vienna [AU1]
[HU]

Production

The production area of tobacco has not changed significantly in the last years. Mandated EU area quotas have frozen acreage devoted to tobacco for 2004. Hungary has some room to increase yields as the starting quota for Hungary is 12,355 MT dry tobacco. However, this volume of production has not been achieved in over a decade.

Spring 2004 was cool and rainy. This hampered the development of seedlings and planting. Modern seedling propagation methods, supported by both government and industry, have improved planting results, led to a more homogenous crop, and also helped the spread of preferred varieties.

Consumption

Domestic tobacco production supplies about one third of the cigarette industry's total demand. Along with slightly decreasing cigarette production, the importance of exports to Hungarian producers is increasing, especially to neighboring countries.

The Hungarian government approved a new anti-smoking law in 1999. Retail shops and supermarkets have taken steps to prevent buyers under 18 from buying cigarettes. Only the cashier may serve customers with tobacco products (instead of use from "free shelves" or vending machines). Tobacco product advertising was banned from print media since June 2001 and billboard advertisements since January 2002.

The 2004 EU membership is changing the consumption pattern of domestic vs. imported cigarettes due to import tariff changes and the different excise taxes on tobacco in Hungary and the neighboring countries. Even today tobacco products are much more expensive in Hungary than in any of the neighboring six countries (except Austria). Most international brands cost half as much in Romania as in Hungary. According to statistics, cigarette sales dropped from 21.8 bn pieces in 2000 to 20.0 billion in 2003. But smoking did not decrease. The difference was filled by the increase of cut tobacco use and illegal imports.

Production Policy

Year 2004 will be a cornerstone year for production support in the farm sector. The EU domestic support priorities differ from Hungary's, and this may lead to changes in the production structure in the next years.

Hungary's agricultural support budget was USD 838.3 million (HUF 216.3 bn) in 2002 and USD 1,021.7 million (HUF 235 bn) in 2003.

In January 2004, the Ministry of Agriculture (MOA) terminated many kinds of domestic production support due to two main reasons; first, the MOA was beginning the transition to the EU support regime; and second, the GOH needed to initiate austerity measures due to overspending in its central budget in 2003. Farmers started road demonstrations as a response to the cut of traditional forms of subsidies. MOA had to bring back some transitional support measures (valid until May) worth HUF 50 bn (USD 244 million) for swine, poultry and dairy.

The above unexpected spending, as well as the HUF 80 bn (USD 390) worth of carryover obligations from 2003 reduced the national agricultural budget of 2004. The GOH launched a (HUF 100 bn; USD 488 million) loan guarantee program for farms under EU and domestic government supplemental subsidies when the short budget occurred (paid only from the end

of the year). Commercial banks and farms will finance the loan guarantees until the relevant "Paying Agency" grants direct payments.

The original GOH agricultural budget plan for CY2004 is about HUF 290 bn (USD 1,415 million). HUF 154 bn (USD 751 million) comes from the Hungarian budget, HUF 136 bn (USD 663) is expected from different EU funds.

Concerning the structure of the direct payments in Hungary, the country proposed the following Complementary National Direct Payment (CNDP) version under the Single Area Payment Scheme (SAPS).

Breakdown of Complementary National Direct Payments in Hungary		
	Forint (HUF)	US Dollar (USD)
EU Direct Payment (25%)	76 bn	370 million
Compl. National Direct Payment (30%)	92 bn	449 million
of which		
Arable land	72 bn	351 million
Rice	0.7 bn	3 million
Tobacco (Burley and Virginia Schemes)	4.5 bn	23 million
Beef cattle (Beef and Suckler cow Schemes)	9.4 bn	46 million
Dairy	3.6 bn	18 million
Ewes	1.7 bn	8 million

The EU's direct area payment (25%) for selected crops, including tobacco, is HUF 17,500/ha (USD 86/ha). The domestic government "top up" (see above) per hectare tobacco area is HUF 500,000-660,000 (USD 2,405-3,170) for Burley tobacco and HUF 660,000-820,000/ha (USD 3,170-3,942/ha) for Virginia. This latter complementary payment is composed of crop volume based and crop quality based bonuses, as well as support for the tobacco producers' associations.

Hungary has 2,000 ha Burley quota, 3,483 ha Virginia area quota, and 12,355 MT tobacco crop quota under the CAP.

Trade

Fluctuations in Hungary's tobacco imports reflect international prices and re-exports rather than simply annual cigarette production. The main countries of origin are generally the same year to year (the United States, Turkey, Greece and some African countries). The value of the un-manufactured tobacco imports was USD 28 million and exports were USD 11 million in 2003. These figures are unlikely to change in 2004.

United Leaf Tobacco (ULT) processes about 90 percent of tobacco produces in Hungary. The 10-15 percent share of the US from the total imports offers stable opportunities for the American exporters.

Country Hungary
Commodity Tobacco, Unmfg., Total

Time Period	CY 2002	Units:	MT, \$ 000
Imports for:			1
U.S.	844	U.S.	7014
Others		Others	
Greece	1244		3894
Malawi	1058		4971
Turkey	809		4221
Tanzania	676		1846
Zimbabwe	366		2211
Total for Others	4153		24157
Others not Listed	3241		8006
Grand Total	7394		32163

Country Hungary
Commodity Tobacco, Unmfg., Total

Time Period	CY 2002	Units:	
Exports for:			1
U.S.	0	U.S.	
Others		Others	
Switzerland	615		
Romania	492		
UK	305		
Poland	257		
Total for Others	1669		0
Others not Listed	2188		
Grand Total	3857		0

Tariff Changes (Tobacco)

Since Hungary's accession to the EU the import tariff for U.S. leaf tobacco has been reduced. The EU's common external tariff for un-manufactured tobacco is 18.4% while the Hungarian tariff was 51.2 percent. Leaf tobacco from European sources (about twenty percent of the total imports) became duty free.

Cigarettes

Cigarette production is slowly decreasing along with consumption. With Reemtsma leaving Hungary, the number of manufacturers dropped to three, and the only domestic cigarette company has moved manufacturing to neighboring Romania. In 2000, 21.6 billion pieces were produced domestically, and this fell to 18.8 billion in 2003. Industry representatives reject these statistics saying that the black market for cigarettes (accounting for an estimated 5-10 percent of production) make official consumption calculations inaccurate. In spite of stagnating production, the industry has invested a lot in quality improvement. There has also been a reduction in the number of non-filtered brands.

Hungary must reach the EU's excise tax level on tobacco products by 2009. This means the increase of the tax in the retail price from the actual 44 % to 57%. The government increased the excise tax on tobacco products two times in 2002 and again this April - a total 53.7 percent increase. Due to a different schedule for implementing EU tax policies, tobacco product prices in neighboring Slovakia may be cheaper than in Hungary during the first year of the EU membership

Tariff Changes (Cigarette)

Similar to leaf tobacco, import tariffs of cigarette dropped from 57.6 percent to 10 percent after the country became a EU member.

Country Commodity	Hungary Tobacco, Unmfg., Total (HA)(MT)						UOM
	2002 USDA Official [	Revised Estimate [D	2003 Official [	Estimate [D	2004 Official [	Forecast Estimate [New]	
Market Year Begin	01.2002		01.2003			01.2004	MM/YYYY
Area Planted	5500	5500	5800	5800	0	5500	(HA)
Beginning Stocks	7600	7600	7000	7000	7000	6300	(MT)
Farm Sales Weight Prod	10650	10650	12000	12000	0	11700	(MT)
Dry Weight Production	8700	8700	9200	9200	0	9000	(MT)
U.S. Leaf Imports	2500	2500	3000	1000	0	1000	(MT)
Other Foreign Imports	5000	5000	6500	7600	0	7400	(MT)
TOTAL Imports	7500	7500	9500	8600	0	8400	(MT)
TOTAL SUPPLY	23800	23800	25700	24800	7000	23700	(MT)
Exports	3900	3900	3500	4000	0	4000	(MT)
Dom. Leaf Consumption	6600	6600	6800	6800	0	6500	(MT)
U.S. Leaf Dom. Consum.	1500	1500	1700	1000	0	1000	(MT)
Other Foreign Consump.	4800	4800	6700	6700	0	6400	(MT)
TOTAL Dom. Consumption	12900	12900	15200	14500	0	13900	(MT)
TOTAL Disappearance	16800	16800	18700	18500	0	17900	(MT)
Ending Stocks	7000	7000	7000	6300	0	5800	(MT)
TOTAL DISTRIBUTION	23800	23800	25700	24800	0	23700	(MT)

Commodity	Tobacco, Unmfg., Flue Cured (HA)(MT)						UOM
	2002 USDA Official [	Revised Estimate [D	2003 Official [	Estimate [D	2004 Official [	Forecast Estimate [New]	
Market Year Begin	01.2002		01.2003			01.2004	MM/YYYY
Area Planted	0	4200	0	4300	0	4200	(HA)
Beginning Stocks	0	1400	0	1900	0	1700	(MT)
Farm Sales Weight Prod	0	5500	0	5800	0	5600	(MT)
Dry Weight Production	0	5100	0	5500	0	5300	(MT)
U.S. Leaf Imports	0	1400	0	1300	0	1000	(MT)
Other Foreign Imports	0	4700	0	4400	0	5100	(MT)
TOTAL Imports	0	6100	0	5700	0	6100	(MT)
TOTAL SUPPLY	0	12600	0	13100	0	13100	(MT)
Exports	0	1000	0	1500	0	1500	(MT)
Dom. Leaf Consumption	0	3000	0	3200	0	3100	(MT)
U.S. Leaf Dom. Consum.	0	1100	0	1000	0	1000	(MT)
Other Foreign Consump.	0	5600	0	5700	0	5600	(MT)
TOTAL Dom. Consumption	0	9700	0	9900	0	9700	(MT)
TOTAL Disappearance	0	10700	0	11400	0	11200	(MT)
Ending Stocks	0	1900	0	1700	0	1900	(MT)
TOTAL DISTRIBUTION	0	12600	0	13100	0	13100	(MT)

Commodity	Tobacco, Mfg., Cigarettes (MIL PCS)						UOM
	2002 USDA Official [	Revised Estimate [DA	2003 Official [	Estimate Estimate [DA	2004 Official [	Forecast Estimate [New]
Market Year Begin	01.2002		01.2003		01.2004	MM/YYYY	
Filter Production	18700	18700	18000	18800	0	18500 (MIL PCS)	
Non-Filter Production	1000	1000	1000	1000	0	1000 (MIL PCS)	
TOTAL Production	19700	19700	19000	19800	0	19500 (MIL PCS)	
Imports	300	300	300	600	0	100 (MIL PCS)	
TOTAL SUPPLY	20000	20000	19300	20400	0	19600 (MIL PCS)	
Exports	400	400	400	400	0	300 (MIL PCS)	
Domestic Consumption	19600	19600	18900	20000	0	19300 (MIL PCS)	
TOTAL DISTRIBUTION	20000	20000	19300	20400	0	19600 (MIL PCS)	